

**REPORT OF THE SEMINAR
ON
MANAGEMENT OF PUBLIC INDUSTRIAL
ENTERPRISES IN THE ECAFE REGION**

**NEW DELHI, INDIA
1-11 DECEMBER 1959**



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AND
THE UNITED NATIONS**



ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
COMMITTEE ON INDUSTRY AND NATURAL RESOURCES

Twelfth Session

Bangkok, Thailand

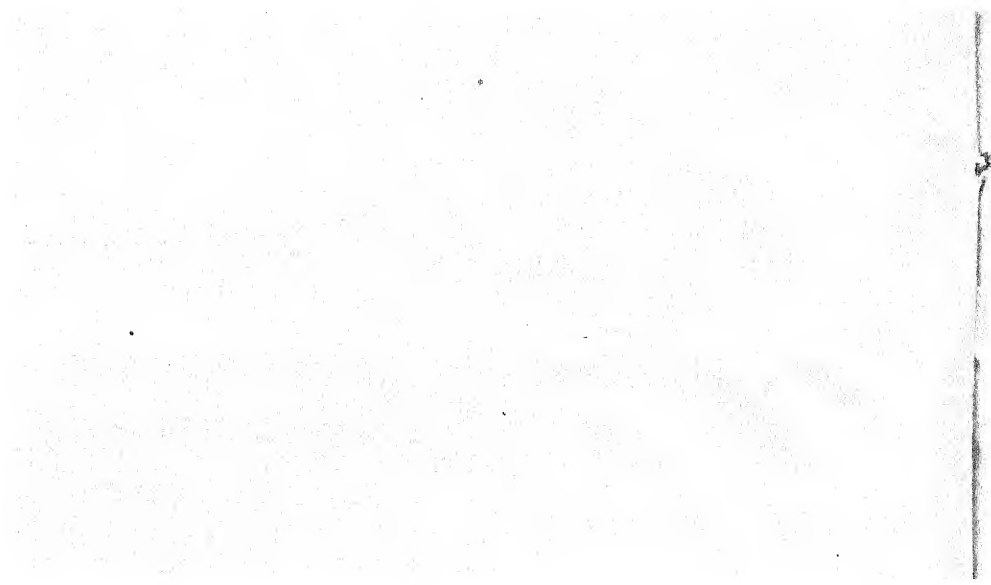
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SEMINAR ON MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

I. INTRODUCTION

1. The United Nations Seminar on Management of Public Industrial Enterprises in the ECAFE region was held in New Delhi, India, from 1 to 11 December 1959.

2. The Seminar was sponsored jointly by the Economic Commission for Asia and Far East, the Department of Economic and Social Affairs and the Bureau of Technical Assistance Operations, and the Ministry of Commerce and Industry of India.

The Indian Institute of Public Administration acted as host on behalf of the Government of India and was responsible for the arrangements required for the Seminar.

ATTENDANCE

3. The Seminar was attended by experts from Australia, Ceylon, Republic of China, Federation of Malaya, India, Indonesia, Iran, Republic of Korea, Pakistan, the Philippines, Singapore, Thailand, the Union of Soviet Socialist Republics, and the United Kingdom, and by observers from the United States of America and the Republic of Viet-Nam. The International Labour Organisation also sent an observer.

4. Also present were one United Nations consultant from within the Region and six consultants from countries outside the region.

5. A list of delegates, observers, consultants and United Nations secretariat members is given as appendix I.

6. Mr. A. Rashid Ibrahim, Deputy Executive Secretary of ECAFE, welcomed, on behalf of the Secretary-General of the United Nations, the delegates and other participants in the Seminar and the guests present at the opening session, and thanked the Prime Minister of India, Mr. Jawaharlal Nehru, for his courtesy in finding time to inaugurate the Seminar. The presence of the Prime Minister was evidence of the support he had always given to the United Nations, to ECAFE, and to all international economic efforts. It was particularly appropriate that the Prime Minister should inaugurate the Seminar in view of India's experience in the field of public enterprise.

7. Mr. Jawaharlal Nehru welcomed on behalf of the Government of India all the delegates to the Seminar. He indicated that India had adopted a pragmatic approach in respect of public enterprise. Economic development was a tremendous problem with which all southeast Asia was concerned. It required not only moral and material resources, but also a planned approach. Developing countries which had to "start from scratch" had to work out their own methods of meeting their special problems. Planning in India had not been without its arguments, but one major conclusion had been that industrialization was essential.

8. The Prime Minister emphasized the important role which the State had to play in promoting industrialization in developing countries, especially in building up strategically important basic industries. He cited the case of the steel industry in India which was being expanded by the State in the second five-year plan.

9. Mr. Rashid Ibrahim said that the purpose of the present Seminar was to bring together, from ECAFE member-countries within the region and outside the region, persons who were in actual control of industrial enterprises in the public sector and had practical knowledge of the problems and solutions, and to provide a forum for exchange of views and experiences with the object of improving management practices and institutions in the region.

10. The Seminar was not intended to discuss the comparative roles of the private and public sectors in the development of an economy. It proceeded on the premise that public industrial undertakings existed or were established, and that they needed to be run more efficiently

and smoothly. Specific problems faced by such undertakings were to be considered at the Seminar, and the experience of countries within the region and from outside was expected to be brought to bear upon them. He hoped that the recommendations of the Seminar would be of practical value to the countries of the region. He expressed the gratitude of the United Nations to the Government of India and the Indian Institute of Public Administration for their help in organizing the Seminar.

ELECTION OF THE CHAIRMAN AND TWO VICE-CHAIRMEN

11. Mr. Manubhai Shah (India), Minister for Industry in the Government of India, was unanimously elected Chairman. Mr. Abrera (Philippines) and Mr. Chantler (United Kingdom) were unanimously elected first and second vice-chairman respectively.

ADOPTION OF THE AGENDA

12. The provisional agenda was adopted with the inclusion of an introductory item—"Review of the Progress of Public Industrial Enterprises in the Countries of the ECAFE Region". The agenda as adopted is given as appendix II to this report.

ADOPTION OF THE REPORT

13. The draft report was adopted by the Seminar on 11 December 1959.

II. REVIEW OF PROGRESS OF PUBLIC INDUSTRIAL ENTERPRISES IN COUNTRIES OF THE ECAFE REGION

14. The Seminar noted that the promotion of industrial development was a basic part of the economic planning of nearly 11 countries within the ECAFE region. For one reason or another, a sizable portion of this industrial activity had to be initiated or operated by the State.

15. Since 1954, when the earlier Seminar on "Organization and Administration of Public Enterprises in the Industrial Field" was held in Rangoon, public industrial enterprises in many countries of the region had increased in number, variety and importance, although this increase was much greater in some countries than in others. The various delegations made statements regarding the recent development and current situation of public industry in their several countries, and many submitted written notes which were circulated and are included in the List of Seminar Papers in appendix III.

16. The reasons given for reliance on public as contrasted to private industrial development were several, and varied considerably from country to country. There was wide agreement that State intervention was especially necessary with respect to basic industries, the development and control of which were crucial to the national economy and its planning. It was also held to be essential that the State should fill the gaps where private entrepreneurs were unable or unwilling to undertake the necessary industrial investment. In most of the countries, these basic policies were now accepted, but major questions remained as to which industries required State action.

17. Discussion revealed that many countries of the region were encountering similar problems in running their public industrial enterprises. Among them were recruitment and training, shortage at all levels of qualified personnel, of raw materials, of power, and of spare parts. Experience had not always been satisfactory with respect to preliminary surveys and investigations, cost estimates, time schedules, location of industrial units as between various regions, and co-ordination with other sectors such as transport and marketing.

18. The most important problem, however, was that of securing adequate managerial skill, which led to the drafting of civil servants, or, to a lesser degree, of personnel from private industry. There was general agreement that neither of these alternatives was completely satisfactory, since management of public industrial enterprises required a different approach and experience. This meant that training of special cadres was necessary. Note was taken of various training methods and programmes but it was felt that much more needed to be done.

19. Many countries of the region were adopting a pragmatic approach in the setting up as well as to the organization of public industrial enterprises and were experimenting with various ways of improving the efficiency of the public industrial sector. Public enterprises sometimes had too much independence, whereas at other times they were subject to somewhat rigid control by the Government or the Legislature. With growing experience, however, more suitable relationships between governments and public enterprises were being evolved.

III. GOALS FOR MANAGEMENT

NATIONAL OBJECTIVES

20. The objectives of public enterprises in the ECAFE region include national economic development, and also in some cases social and economic regulation, the increase in State revenues, the conservation of foreign exchange or other scarce resources, or action where private capital is either unwilling or unable to step in. One of the main reasons for State intervention has been that private enterprise has been reluctant or unable to undertake large, or relatively unprofitable, industrial ventures. It was felt by some experts that speedy industrialization in these developing areas could take place only as a result of the initiative and active effort of the governments themselves. Some enterprises may have been established for prestige or other reasons which cannot be related to a conscious and predetermined national goal. The Seminar recognized that there is not necessarily a single national goal, and that public enterprise at times may be required to fulfil varied and possibly conflicting national purposes.

21. The Seminar considered the question of national objectives primarily from the viewpoint of the manager. It was recognized that good management in itself makes a major contribution to the achievement of those objectives. There was general agreement that a manager needs to be informed of the national objectives which are to be achieved by the enterprise. The manager, in turn, has a direct responsibility to assure that all his officials and workers know and fully understand the relationship of their work to the accomplishment of national goals. It was emphasized that management of a public enterprise functions best when it forms a part of a co-ordinated national endeavour.

22. Various devices are employed to provide necessary guidance to managers. These vary from country to country and with the nature and complexity of the enterprise. In the Soviet Union national goals are formulated in the seven-year and five-year plans which are brought to the attention of every manager. A complete operational plan is also developed for each enterprise. In the United Kingdom, on the other hand, national goals are not given formal expression but, where necessary, a manager relies on informal relationships with his minister for such guidance as may be appropriate. The fact that the Government of India has seen fit to create certain enterprises is regarded in itself to be an expression of the national objective; specific directives are rare. The national goals to be achieved by an enterprise are sometimes set forth in the law creating it. Guidance may also be provided through answers to parliamentary questions and through other informal methods.

23. The Seminar stressed the need for managers to be consulted in the development of national plans. The manager can advise on feasibility and ensure that national goals are expressed in such terms that they can be readily translated into a specific plan for production and operations.

24. Several examples were cited in which managers were confronted with problems resulting from conflicting purposes. For example, a sugar company was compelled to continue an uneconomic mill because the closing of the mill would cause unemployment. The Seminar emphasized that it was not the responsibility of managers to resolve such conflicts in public policy, although they should make their views known to the proper authorities. If an enterprise is compelled to incur losses as a result of a national policy having no bearing on the management of the enterprise, the best solution would be for the government to assume the cost, as was done by India when it was desired to continue for general purposes a training centre, although it was no longer required by the Hindustan Machine Tools Company for its own programme. Managers should be held to account only for those factors which they could control.

MANAGEMENT GOALS

25. Management objectives cannot be separated from national objectives. In the final analysis, the success or failure of a given enterprise will be judged by its contribution to the achievement of national objectives. The problem is one of establishing sound management standards and practices within a context of national policy.

26. Public enterprises in the ECAFE region are expected to operate along sound commercial lines, and to make the most effective use of the resources furnished to them, minimize costs of production, increase the quality of output, and pay their own way. The earning of profits was not regarded by the Seminar as in any way incompatible with the public nature of the enterprises. The operation of public enterprises at a loss was not considered justified, except during a developmental period or in special circumstances when national interest required it. It was essential to distinguish between the State as the sovereign power, and the State as a proprietor.

IV. MEASUREMENT OF MANAGEMENT

✓ 27. The discussion in the Seminar dealt exclusively with the measurement of performance at the top level. The participants agreed that management efficiency could not be separated from the results achieved by a public enterprise. Basic criteria for measuring the efficiency of an enterprise could be :

- (a) the fulfilment of targets set for the enterprise as its contribution to the economic development of the nation;
- (b) the reduction of the cost of production and the stepping up of economic returns; and
- (c) the achievement of a high quality of production and service measured by national and international standards.

It was also emphasized that, although statistical returns provided the most important criteria by which management could be judged by the higher authorities, the manager's judgment of his own performance should also be based upon information obtained through regular inspections and personal contacts with his subordinates.

28. Measurement of management performance, however, is not the same as measurement of profitability of an enterprise, since the latter depends also on the resources placed, at the management's disposal, as well as on external factors such as price and wage regulations, taxation and general business conditions. But it is one of the tasks of the management to influence such factors, for example, trying to obtain more resources or by making representations to the proper authorities as regards price, wage, or taxation policy.

29. Proper measurements of management performance are of importance to the government which provides the funds and is interested in the results. It is also important to the manager himself and to the management board. Only when he is able to judge his own performance in the past can the manager know how to plan ahead. Information of management performance is important also for the subordinates in the enterprise, for those taking part in its financing and for everybody else that as supplier, customer, or in other ways is dependent on the future of the enterprise.

30. Several of the participants emphasized the fact that, since measurement of the profitability of the enterprise and of its financial status generally is required by law, the management would normally be judged by outsiders on its performance in these respects. It is important for management that such judgment be based on as correct data as possible, and that those who are auditing or inspecting the accounts of the enterprise have an eye more for its efficiency as a whole than for the detailed expenditure. When feasible, the profit data should be broken down in major departments, products, projects, and so on. In order to be used as measurement of management performance, they should also as far as possible be adjusted for the influence of factors which are outside the management control. The difficulty of interpreting profitability and financial status

measurements during inflationary conditions was mentioned, but the Seminar did not have time to discuss this important question.

31. Financial and profit measurements are important, but they are not enough, and particularly not under monopoly conditions. The success or failure of the management to perform such tasks as utilization of resources which are particularly scarce, maintenance of equipment, training of personnel, or improvement of quality or of service often affect the profit or the financial position of an enterprise too late. It is therefore necessary for the management to supplement the accounting data with special indicators of various kinds. In a period of expansion of the public sector, objective criteria for the measurement of performance, based on quantitative indicators relating to output and costs of production are essential to protect the management against irresponsible criticism. Examples of such indicators were mentioned in several of the papers submitted to the Seminar, and further examples were given during the Seminar discussions, particularly by the participants from India and from the Soviet Union. It is necessary to study the possibility of applying standard methods of measurement management for State enterprises, adapted to the special circumstances and levels of economic development in the countries of the region. This is, however, a question which needs further consideration, and it was recommended that the ECAFE secretariat and other appropriate bodies should work for an improvement and an international interchange of management statistics.

32. Several participants emphasized that the measurement of management performance should not be done in a piecemeal way but should be integrated into a coherent system. Measurement costs money, and in several of the ECAFE countries accountants, cost accountants and statisticians represent one of the scarce resources which have to be utilized in the most efficient way. A limited number of the relevant data received punctually and at the right intervals, even if they are only approximations, are of more value to the management than complete and detailed information which arrives too seldom or too late.

SPECIAL PROBLEMS IN CONNEXION WITH NEW PROJECTS

33. Countries establishing new industries are faced with special measurement problems. The establishment of a new plant with all the necessary auxiliary services often costs much more than figure in the project estimates. Sometimes this is a result of bad management performance at the planning or at the execution stage or of unforeseen difficulties or price changes, but it may also be that too low cost estimates have been made to the authorities allocating funds. Whatever the reason, if a new enterprise starts out with over-valued capital assets, the estimated capital costs in future profit measurements will be too high.

34. During the "run-in" period, the usual methods for the measurement of management performance are difficult to apply since one generally lacks data with which to compare the results obtained. If it is the first time a particular line of production is started in the country, data received from machine suppliers or from similar plants in other countries are often the only indicator to be had.

35. The hope was expressed that the United Nations and other international agencies could aid those countries which were particularly short of accountants, cost accountants, and industrial statisticians with the training of such staff. It was also hoped that the ECAFE secretariat and other appropriate bodies could be of assistance in the advancement and collection of management statistics.

V. PROBLEMS OF MANAGEMENT RESULTING FROM FACTORS EXTERNAL TO THE ENTERPRISE

36. Under this heading the Seminar first turned its attention to the subject of availability of resources.

PRELIMINARY PLANNING

37. Adequacy of preliminary planning was regarded as one of the most important factors determining the success or failure of the enterprise. Delegates emphasized the need to devote

adequate time and care to the planning phase, and gave many examples of enterprises that had suffered because surveys of resources had been hasty and ill-considered. The search for adequate supplies and for the necessary power and transport facilities often followed rather than preceded the establishment of the enterprise.

38. Among the methods of ensuring adequacy of preliminary planning, the following were recommended : (a) the compiling of a "portfolio" of suitable projects, ready to be put into operation as soon as the planning authorities gave the necessary authorization and the budgetary authorities released the necessary funds; (b) the establishment of specialized units, on a permanent basis, to undertake survey operations whenever and wherever required. The higher managerial and technical staff of the projected enterprise should be designated sufficiently early to enable these persons to participate in both the survey and the constructional work. When foreign firms or "teams" are employed to establish the enterprise, the local managerial-technical personnel should be closely associated with them at all stages.

39. Mistakes are sometimes made as a result of too exclusive an emphasis on purely technical as distinct from economic considerations. Before construction begins capital costs should be carefully estimated, and accounting procedures installed from the very earliest stages. It might be desirable to relieve an enterprise of certain unusually heavy initial expenses which had been incurred by it merely because certain external facilities such as power, communications, trained personnel were not available. It was also important, although difficult, to estimate the relationship between projected cost of production and projected value of output at full capacity. Neglect of such calculations had sometimes led to considerable waste of scarce resources.

THE USE OF CONSULTANTS

40. Various opinions were expressed about the usefulness of foreign consultants. Although they often made mistakes through insufficient familiarity with local conditions, it was usually necessary to employ them when the country concerned was establishing a type of enterprise of which it had no previous experience. It was felt that the "salesman consultant" who also used his position to push the sales of a particular firm's equipment, should be avoided, and that, when foreign firms were employed on contract, "performance guarantees" of some kind should be included in the agreements with them. Experience with the "turnkey" type of contract appeared to be generally favourable and at least one country expressed its enthusiasm for the type that entrusted one foreign group with the entire process of survey, execution, and operation up to the point when local managers and technicians, having for a time double-banked the foreign experts, could take over complete responsibility for the enterprise.

SPARES AND REPLACEMENTS

41. The problem of spares and replacements was recognized as a vital one. Owing to lack of local availability, enterprises found themselves burdened with excessively heavy stocks of such items, and often had to wait long periods for essential equipment, owing to lack of foreign exchange and to bureaucratic delays. Some easing of this problem could be obtained by (a) long term supply agreements with the makers of the equipment, whereby they could be given incentives to carry heavier stocks in their own local depots; (b) local manufacture (either in the enterprises' own workshops or elsewhere) of the simpler items; (c) standardization of equipment to the greatest possible extent, so as to ensure maximum interchangeability of parts. In one country, the Government made an annual bulk allocation of foreign exchange, for purchase of spares and replacements, to the organization responsible for its industrial development programme. This made possible flexibility in the matter of supplies and priorities. It was agreed, however, that these devices were essentially of a "stop-gap" nature, and that the ultimate solution of the problem lay in the development of local engineering industries.

POLITICAL AND SOCIAL FACTORS

42. Political and social factors, in so far as they affected industrial location, also constituted an "external" problem. When these dictated that industries should be established in any

backward areas, the overheads involved in e.g. securing water, power, and transport facilities, and in providing accommodation and amenities for staff and workers were very heavy. It was agreed that not all of these costs could be reasonably and equitably charged to the enterprise, and that a decision should be taken in each case as to the proportion of them that should be borne by the Government.

GOVERNMENT AND THE ENTERPRISE

43. All delegates, with one exception, agreed that governmental control over a public enterprise were necessary, but that should mainly take the form of broad directives on such matters as development programmes, capital investment, personnel policies, and other questions possibly affecting national interests. It was also agreed that members of the boards should be appointed and be removable, by the appropriate political authorities, and some delegates were of the opinion that the government should also designate the General Manager and approve appointments to all the higher and managerial positions. On the other hand, it was most desirable that frequent changes in top-level personnel should not be made, as both board members and managers could become efficient only as a result of experience. Necessarily, all kinds of governmental control would be more important and more continuous in the constructional phase than in the operating phase.

44. The problem of co-ordinating the operations of different enterprises, particularly in the early stages of industrial development, was raised by several delegates, and note was taken of the role of the Administrator of Economic Co-ordination in the Philippines and of the Industrial Development Corporation in Pakistan.

45. The proper balance between autonomy and control was a delicate one and often difficult to maintain. Although excessive governmental intervention was generally deplored, one delegate pointed out that "flexibility" was sometimes wrongly interpreted by managers as meaning that they could work in exactly the same manner as private entrepreneurs. Well drafted enterprise laws could help to establish proper relationships, but the most important need was the development of suitable conventions and of willing co-operation and mutual understanding between the personalities at all levels.

46. Excessive governmental intervention was attributed by some delegates to the tendency of members of parliament to concern themselves too much with the day-to-day working of the enterprise instead of confining themselves to judging it by the contribution it was making to the fulfilment of national objectives. Such a tendency could not be prevented by placing restrictions on parliamentary powers, but only by ensuring that members of Parliament were better informed. Periodic meetings between them and enterprise managers could be useful for this purpose. Some delegates expressed themselves in favour of establishing specific parliamentary commissions of investigation to keep the enterprise under review.

PERSONNEL POLICIES

47. The question of how far the enterprise should be free to devise its own personnel policies evoked a number of different opinions. With a few exceptions, delegates agreed that enterprises could not be given complete autonomy in this matter. Certain general rules had to be laid down to prevent unfairness and to limit the competitive bidding for scarce personnel. But the tendency to apply ordinary civil service personnel rules to public enterprises was generally deplored, because these were not usually adapted to the needs of a commercial concern. One of the most difficult problems was the disposal of the surplus labour with which many enterprises were now encumbered, to the detriment of their efficiency. It was felt that, while in theory management should have freedom, in consultation with the various grades of employees, to dismiss redundant labour, so many political and social factors were involved that in practice little could be done without the agreement of the government, in those countries where the problem was acute.

FINANCIAL CONTROLS

48. Financial controls were also briefly discussed. All delegates were agreed that the controls applicable to government departments were inappropriate and that enterprises should

operate on business-type budgets. It was also agreed that, whatever arrangements were made for the external auditing of an enterprise's accounts, the audit must be of the commercial kind and conducted by people familiar with the principles of commercial auditing. Difficulties were experienced, however, as a result of the shortage of persons with the necessary qualifications, and all too often, when auditing was in the hands of the government audit office, the enterprise found itself, in practice, subjected to the type of enquiry that the auditing personnel were in the habit of applying to ordinary departmental accounts. To make good the shortage of trained commercial auditors was therefore a task of fairly high priority.

49. The attitude of government auditors, it was said, was in general helpful; but there was a tendency for auditors-general to report on matters relating to managerial efficiency as well as financial correctness. This was not to be encouraged, as proper efficiency auditing required different techniques and approaches.

THE DETERMINATION OF PRICES

50. The Seminar then turned, briefly, to the respective responsibilities of government and enterprise in the matter of price-fixing. Several delegates explained the manner in which the prices of the products of public enterprises were determined in their countries. It was agreed that the initial responsibility was that of the enterprise itself, and that among the factors to be taken into consideration were the cost of production (including depreciation), and the need for capital accumulation for purposes of expansion. In competitive conditions, of course, price was regulated by the mechanism of the market, but in few developing countries did such conditions prevail, and in many the government wished to regulate prices, in both public and private sectors, for purposes of combating inflation and/or giving effect to economic plans. Some governmental control over prices, therefore, was inevitable. It might be exercised in several ways.

51. In some cases prices were formally subject to ministerial approval. In others, while the enterprise in theory possessed freedom in this respect, in practice it always consulted the government, which had the last word. When the government was the sole or the major purchaser of an enterprise's product, the price was fixed by negotiation and discussion between the enterprise management and the purchasing authorities. Price tribunals might also be employed, but there were varying opinions among delegates as to their value. It was agreed, however, that, in so far as governments had the responsibility, they needed sound, informed and objective advice as to its discharge, and should beware of being unduly influenced by pressure groups whose interests might not coincide with the national interest.

VI. PROBLEMS OF MANAGEMENT RESULTING FROM FACTORS WITHIN THE ENTERPRISE ITSELF

COMPOSITION OF BOARD OF DIRECTORS

52. The composition of the Board of Directors of public industrial enterprises varied according to the nature and size of the enterprise. In some undertakings, such as the Railways in India and Pakistan, the top management was entrusted to functional boards in which the Directors dealt not only with matters of policy but were also in charge of the operation of the departments of which they had specialized knowledge. Usually, the Board of Directors concerned itself only with important policy matters and left the execution of the policy and supervision of day-to-day operations to the General Manager. Such Boards consisted, as a rule, of senior civil servants, experienced business men, industrialists and financiers, and men drawn from public life, including, sometimes persons well versed in labour problems. Boards of directors of public enterprises should contain men with experience in various aspects of the operation of the enterprise, but should not seek to represent either regional or group interests. The successful and harmonious working of the Board depended upon the experience and wisdom of its Chairman, the readiness of the Directors to identify themselves with the objectives of the enterprise and to work as a team, and their ability to concentrate on broad issues of policy and programme, leaving day-to-day details to the General Manager and other functionaries.

53. In the case of a public enterprise, the appointment and removal of the Chairman and Directors rested with Governments. Where it might be embarrassing to exercise the power of removal, a useful device was to provide for the retirement of some or all of the directors by rotation each year, thus giving the Government the opportunity to replace unsatisfactory directors.

54. As regards the duties and functions of Boards of Directors, the position varied from country to country depending upon the charter of the Corporation or Company and the nature of the enterprise. Subject to varying degrees to government control, Boards of Directors dealt with all important matters of policy, including approval of capital expenditure, the operational budget, the production programmes, purchases and sales policies and recruitment or discharge of heads of departments and other key personnel.

RELATIONS OF MANAGER AND THE BOARD

55. The consensus was that the manager should be regarded as the chief executive of the public enterprise and possess all the powers necessary for its efficient and successful operation. The exact status of the manager would naturally depend upon his qualifications and experience and the size of the factory entrusted to him. In the case of a small concern, the manager would attend the meetings but would not necessarily be a member of the Board of Directors. In the case of a large public enterprise, however, it was advantageous to appoint the general manager as a director or managing director so that he might play an active part both in the formation and in the execution of policies of the Board. Cases were cited in which the full-time chief executive was also the Chairman, or in some cases the Vice-Chairman, of the enterprise. But, even when the chief executive did not occupy either of these positions, or even enjoy ordinary Board membership, he could nevertheless secure, by tactful handling of his Chairman and Directors, an adequate say in the formulation of policies and help in the smooth and harmonious working of his Board.

DELEGATION OF POWERS

56. The Seminar recognized the necessity of extensive delegation of powers to the Managing Director or General Manager with regard to sanction of capital and revenue expenditure within the framework of the budgets approved by the Board, the recruitment, promotion and discharge of personnel, and all other matters relating to the operation of a public enterprise. The powers might be delegated by means of general orders or specific resolutions adopted by the Board from time to time. Periodical reports would be submitted to the Chairman of the Board which would enable the Board to judge the manner in which the delegated powers were being exercised and to intervene if and when this was found necessary. Several speakers urged that in order to avoid excessive concentration of authority in one person, and to give an opportunity to the younger executives to gain experience and a sense of responsibility, general managers should delegate some of their powers to subordinate officials, subject to the adoption of control procedures which would enable them to supervise the execution of the delegated authority.

ROLE OF THE FINANCIAL ADVISER

57. The practice of appointing financial advisers in public industrial enterprises was somewhat peculiar to the Indo-Pakistan sub-continent and had not found favour in most other countries of this region. It was recognised that, where large sums were involved, the Governments concerned and their legislatures were interested to know how the public funds had been utilized and to retain a certain degree of control. It was noted that the auditors-general in these countries also had a special responsibility with regard to the expenditure of public funds.

There could be three types of Financial Advisers :

- (i) an officer of the Finance Ministry giving financial advice to a public enterprise and seeking to control it, but not participating in its management.
- (ii) a senior Finance Officer appointed to the Board of Directors and taking full part in its proceedings.
- (iii) a Government official, or a non-official with knowledge and experience of financial matters, serving on the staff of the Corporation.

58. The consensus was against the first type of financial adviser. Practical experience had shown that such persons were not always adequately informed about the problems and difficulties of the enterprise, and were inclined to indulge in destructive criticism. In a business enterprise, as in other walks of life, authority and responsibility should go together.

59. There was a much better case for the appointment of an experienced finance officer as financial director of a public enterprise. He would normally be in charge of the budget and accounts department and advise the Board on all important financial matters. At the same time, he would be a party to, and responsible for, all other decisions of the Board with regard to the management and operation of the enterprise. The problem as to what should be done in the event of a difference of opinion between the financial director and other members of the Board on important financial issues was discussed at the Seminar. Some of the experts felt that the views of the majority of the Board should prevail, and that there should be no question of giving a right of veto to the financial director, or a right of an appeal to the Government. Some other participants were, however, of the opinion that, as the financial director had a special responsibility with regard to the financial soundness of the enterprise and the proper utilization of public funds, it might be advisable to provide for a reference to the Government in the event of serious differences on major financial issues. In such cases, either the points in dispute might be brought informally to the notice of the Ministers concerned, or the decision of the majority of the Board, together with the dissenting note of the financial director, might be forwarded to the Government for information and action.

60. With regard to the third category of financial adviser, it was generally agreed that it was useful to have an officer conversant with budgetary and financial matters on the staff of the enterprise. He would serve as an assistant of the general manager, but would have no right of veto or appeal to the Board of Directors. A sensible general manager would make the fullest use of his financial adviser, just as he would consult his legal adviser, production manager, sales manager, or personnel manager before taking important decisions or formulating his proposals for the consideration of his Board.

61. It was pointed out that in addition to the financial adviser, public enterprises require accountants and auditors who would maintain the statement of accounts in the form prescribed by the Government or the Auditor-General, and would ensure that expenditures were duly authorized, and that cases of excess expenditure, misappropriation or embezzlement were brought to the notice of the authorities concerned. Pre-audit was considered impracticable in a business organization, but there was considerable advantage in having a post-audit by auditors of the enterprise itself. This would reduce the work and cost of the professional audit carried out by firms of auditors, as well as the test audit that might be undertaken by the Auditor-General of the country concerned.

TRAINING PROGRAMMES

62. The Seminar reviewed the training programmes of the various countries of the ECAFE region and noted the valuable assistance that had been given in this respect by the United Nations and specialized agencies such as the International Labour Organisation. All the participants in the discussion emphasized the importance of training the managers, supervisors and workers of public industrial enterprises. Practical training on the job itself, which may take the form of apprenticeship or operator training, was particularly useful. Where an industry was being set up in a developing country for the first time, it might be helpful to send young engineers as well as foremen and supervisors for a period of training in a similar establishment abroad. This could be arranged either under a technical aid programme or by special agreement with a firm of consultants or suppliers of machinery.

PARTICIPATION OF WORKERS IN MANAGEMENT

63. There was very little discussion with regard to the relation between Managers and Trade Union leaders. It was taken for granted that Trade Unions were necessary, not only to ensure good relations with labour and to avoid or settle industrial disputes, but also to help the

management to secure the willing co-operation of its workers. Relations between Managers and Trade Unions must, therefore, be friendly and harmonious.

64. The Seminar examined in detail the question of the participation of workers in the management of public enterprises, and learnt with interest of the arrangements obtaining in this regard in India, Israel, Soviet Union, and Yugoslavia. The experience of the Hindustan Machine Tools Limited in the working of the joint management councils representing the management as well as labour, was considered of special interest to other countries of the ECAFE region. These experiments deserved to be studied, and more information and knowledge disseminated with regard to them.

WAGES AND INCENTIVES

65. It was assumed that the law and practice governing the payment of workers applicable to private enterprises would also be followed by the public sector. There was, however, an interesting exchange of views with regard to the advantages and disadvantages of providing special incentives in the form of production bonus, profit bonus etc. in public undertakings. Some experts were of the view that there should be no discrimination between one class of worker and another, and all workers should be paid as good a wage as the productivity and financial position of the enterprise would permit. Other experts, however, saw some advantage in rewarding more efficient workers, and in providing a production bonus when the contribution of a worker, or a group of workers, was above the production norm fixed by the management. It was also mentioned that in some countries workers had a legal right to receive a profit bonus if the enterprise had made a substantial profit and had given a dividend to its shareholders. Attention was also called to the need for developing non-financial incentives to encourage improved productivity and efficiency.

VII. TOOLS FOR IMPROVED MANAGEMENT

66. The importance of proper organizational structures for the effective management of an enterprise, both in the construction and production stages, was recognised. Initially a new enterprise is modelled on similar enterprises in the same country or outside, but as time goes on and experience is gained, the form is adapted to local conditions. Although well-known organizational patterns are available, in every case these have to be adapted to the specific conditions under which each particular enterprise is required to operate.

67. The structure of an enterprise was essentially determined by its productive function, and needed to be revised and improved as experience was accumulated and as personnel at all levels developed their qualification and capacities. To this end, management should periodically subject the enterprise's structure to a systematic analysis in order to ensure that the proposals for structural change should be based on full information and constitute a genuine and informed response to recognized needs. In such an analysis, particular attention should be paid to factors which might have arisen from defective or unclear relationships between the enterprise's various departments, and also to any maladjustments as a result of changes in the enterprise's prescribed tasks, or modifications in the external economic and social factors influencing its work.

68. In this connexion, the Seminar considered the relationship that should obtain between the "line" and "staff" in an enterprise. The experience of the Indian Railways and the British National Coal Board was mentioned. The need for constant consultation between specialist advisers and operating personnel at all levels was emphasized.

69. The manner in which communication should be made was also discussed briefly. Opinion generally favoured an adequate classification of the type of instructions that are usually issued, e.g., technical, financial, administrative, personnel and commercial. The instructions should be clear and, where practicable, should be preceded by consultation with the units affected.

70. The general principle that found ready acceptance was that, as executive talent was developed, there should be progressive decentralization of decisions. Powers should be delegated in clear and precise terms and managers should encourage the maximum of initiative among their

subordinates. It was further necessary that delegation of executive authority be carried out within the framework of recognized management control.

71. The development of executive talent was one of the most urgent tasks before ECAFE countries anxious to secure improvements in management. The accent should be on developing persons with a broad outlook. Selection should be made for positions of responsibility at an early age and the persons concerned should be given real responsibility in all aspects of the work of an enterprise. Such personnel should acquire a knowledge of standard managerial technique.

72. In the selection of personnel for promotion greater emphasis should be placed on competence and performance rather than on academic qualifications and seniority. In order to eliminate the chances of favouritism and personal factors, adequate systems should be developed of periodic appraisal of executives for future promotion.

73. There was a discussion on balancing age groups within the enterprise, a problem of particular importance to a developing country, in view of its need to use to the full all available managerial talents. The holding back of young men from the promotion to which their abilities and qualifications entitled them was deplored and the danger to morale of having too small an age-spread among executives was stressed. Although no formulae for eliminating these frustrations could be devised, the Seminar agreed with a view that top management should constantly be aware of the need for promoting "good understanding" between young and old.

74. Future personnel requirements should be periodically assessed as exactly as possible, from the planning stage onwards, and due provision made for needs over the longest foreseeable period, taking into account the enterprise's projected rate of expansion.

75. As regards programmes for development of executives, use is being made of a variety of formal methods, such as general courses at universities or at "staff colleges" and special courses given in the enterprise itself by its own employees or by outsiders. For training in decision-making on higher levels, use could be made of informal methods such as taking lower employees to meetings with higher management, or assigning certain projects to study groups or individuals. Other methods noted were use of staff meetings, not only for decision-making but also for educational purposes, and efforts to accustom managers not to pass on decisions to their subordinates without explaining to them how the decisions were reached.

Adequate Use of Modern Accounting Systems and Operational Statistics

MODERN CONCEPT OF ACCOUNTING

76. The effective use of accounting and operational statistics, now known as 'Management Accounting' as a tool of management was important. Management accounting was considered a recognized means of measurement and communication of financial and other economic data within an organization. A Seminar paper by the Soviet delegation referred to this subject as "Economic Accounting".

77. Management Accounting being an analysis, tabulation and presentation of data arising from economic activity in an enterprise was deemed to include the processes formerly known as financial, historical or conventional accounting, budgetary control, cost accounting, material and stores accounting and internal audit.

78. It was pointed out that the modern concept of accounting has a forward looking approach and is very much concerned in evaluation of the predetermined plan, by using available statistical and accounting information to compare the result of actual performance with the expected performances, both in quantitative and financial terms. The variations from the standards or targets initially set are studied and the possible corrective measures indicated. This comparison of what might be called 'promise' and 'performance' has been further developed to concentrate mainly on exceptional deviations and this is often referred to as control by exception.

79. Speed and frequency of preparation of financial reports was particularly stressed even at the sacrifice of absolute accuracy, as the management is vitally concerned to know trends of

results quickly rather than to wait for more accurate results. The need regularly to review the types, frequency and effective use of reports was mentioned, and it was pointed out that top management, in particular, must not be overloaded with too much or too detailed information.

APPRAISAL OF PERFORMANCE

80. Appraisal or measurement of performance of an enterprise was a team effort but it was pointed out that the effectiveness of appraisal depended on suitable diagnosis of statistical and accounting data, particularly by using budgetary control and cost accounting techniques. In this connexion, accounting must be regarded as a service to the management and not as an executive function; but the accountant must form part of the whole team of management if the best results are to be achieved.

81. Particular stress was laid on the vital need for continuous comparison of actuals with standards which might be based on empirical methods, such as past performance or a rough and ready estimate, which might subsequently lead to the establishment of engineering standards. There appeared to be need for a regular review of such methods of appraisal. Further, the cost of any accounting and reporting must not outweigh its usefulness in any enterprise. No level of management should be expected to account for results which were beyond its control and methods of responsibility accounting and direct costing might be indicated.

Effectiveness of Management Accounting in the Countries in the ECAFE Region

82. The Seminar then reviewed the accounting techniques and methods in vogue in the countries in the ECAFE Region, and it was noted that countries with a degree of industrial experience had been making considerable progress, although it was generally agreed that there was still room for further progress. In one of the countries, the Government had recently appointed an honorary adviser to advise on steps to be taken to improve further systems and procedures.

83. On the other hand, it was noted that in some countries in the region very little progress had been made in this regard and that lack of accounting and statistical information was depriving management of one of the best tools of measurement of its performance. Instances were given of serious arrears of financial and historical accounting, incomplete data of capital costs of new industrial projects, ineffective stores accounting and absence of nearly all reliable cost accounting data. This appeared to be largely due to lack of trained accounting personnel.

84. The Seminar then explored the feasibility of evolving interim methods that would enable management to receive certain essential accounting information. For example, it was possible for cash receipts and payments to be compared with say a cash budget; attention should be paid to control of credit, and review of current assets and current liabilities, particularly levels of cash, stocks, work in progress, and so on. If possible, estimated production statements should be compiled, as estimated figures were better than none at all. A great deal of valuable statistical data was usually available and could be used for measuring performance.

85. The need to give priority to the maintenance of current records, in preference to arrears, was particularly stressed, so that recent accounting data are available to management enabling it to take decisions from day to day.

86. Ways and means to improve accounting techniques were then examined and a number of delegates mentioned the usefulness of employing consulting firms or advisers to review present accounting systems and to recommend and instal new systems suitable to the particular enterprise. The systems need not be elaborate but should be designed to fulfil the requirement of each case. It was recommended that some of the countries might be well advised to seek the assistance of the United Nations Bureau of Technical Assistance Operations and similar agencies in this regard. One or two delegates suggested that the possibility of effective use of mechanized accounting might be explored, particularly as this would often result in speedy and more accurate production of figures.

87. A suggestion was also made that the consultants might be invited to compile a paper containing suitable suggestions for the use of countries in the region.

TRAINING

88. The need for more accounting personnel was stressed. It was felt that in some of the countries in the region there was distinct need to stimulate more interest in accounting as an occupation or career. Although training institutions or institutes were available in most countries, in others the facilities for practical training in particular, were not adequate. It was suggested that the countries having a comparative abundance of accountants might help those who had not.

89. The importance of management acquiring elementary knowledge of basic accounting processes was very much stressed. It was suggested that an accounting background enabled the manager to judge the effect of his decisions more accurately.

VIII. RECOMMENDATIONS OF THE SEMINAR REGARDING PROGRAMME OF WORK IN THE FIELD OF MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES

90. The Seminar felt that the secretariat of the United Nations Economic Commission for Asia and the Far East and the United Nations Division for Public Administration should continue on an extended scale their work of dissemination of information on the main problems arising in public industrial enterprises within the region. There was much greater need for the ECAFE countries to exchange technical knowledge and managerial experience and to provide mutual assistance. If a list could be compiled by ECAFE of the public industrial enterprises set up in the countries of the region, there could also be opportunities for exchange of views regarding the consultants employed, suppliers of equipment, and other relevant matters.

91. Particular emphasis should be given in United Nations programmes of technical assistance to the training of local personnel, regionally or through fellowships outside the region. The possibility of using specialists and experts from within each country or from within the region is growing and should be encouraged in every way. Whenever necessary, ECAFE and the United Nations Division for Public Administration and Bureau of Technical Assistance Operations should, on request from or in consultation with the countries concerned, arrange for the services of advisory experts, who should be men of practical experience in this type of work and preferably have some knowledge of local conditions.

92. The usefulness of experts might be enhanced if, in addition to serving in a purely advisory capacity, they could on request assume direct responsibility for the operative part of their tasks. It was noted that the recently established OPEX programme of the United Nations, for the provision of operational and executive personnel, would make this possible. The view was also expressed that general consultancy arrangements were, by and large, not as satisfactory as specialized assignments.

93. While recognizing the usefulness of the general discussions held in the present Seminar, it was felt that this could be followed by more specialized periodic seminars or symposia concentrating on specific problems in selected industries of interest to the countries of the region or on particular aspects of management.

94. Another suggestion was that ECAFE should organize annually a short-term refresher course for persons engaged in the management of industrial enterprises. A course of this nature would facilitate dissemination of the knowledge and experience gained in running public industrial enterprises.

95. The Seminar suggested that the above proposals should be considered by ECAFE with a view to their being implemented with the co-operation of the United Nations Division for Public Administration and Bureau of Technical Assistance Operations as well as by specialized agencies such as the International Labour Organisation

APPENDIX I

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APPENDIX II

AGENDA

(Sub-headings within the seven major divisions were primarily to suggest a possibly productive range for discussion. In many cases they were rearranged or presented in different form by the consultants and participants who introduced the several topics and guided the discussions thereon.)

- I. Review of the progress of public industrial enterprises in the countries of the ECAFE Region.
- II. Goals for Management.
 - (a) Objectives of industrial enterprises.
 - Material production
 - Economic profit
 - (b) Special Objectives set for public enterprises.
 - Social
 - Other non-economic
 - (c) Enterprise objectives in relation to national and international policies and objectives.
 - Planning : long-run; short-run
 - (d) Management goals and their relationship to enterprise objectives.
- III. Measurement of Management.
 - (a) Specification of criteria of effective management.
 - Usual industrial criteria
 - Amendments or additions because of special objectives of public industrial enterprises.
 - (b) Validity of criteria thus established.
 - (c) Application of criteria in measuring management.
 - (d) Use of data obtained.
- IV. Problems of Management Resulting from Factors External to the Enterprise.
 - (a) Plant location and layout.
 - (b) Availability of resources.
 - Material
 - Personnel
 - Power
 - Transport
 - (c) Relationships with Government.
 - Organisational
 - Financial—including taxes
 - Personnel
 - Controls
 - (d) Relationships with other public enterprises.
 - (e) Non-Governmental relationships.
 - With private industry
 - Professional contact
 - Public relations

- (f) Distribution and sales.
Pricing policies

V. Problems of Management Resulting from Factors within the Enterprise itself.

- (a) Structural.
Relationships of manager and board of directors (or other supreme bodies
Internal structural organisation.
- (b) Procedural and supervisory.
Establishment and revision of operating procedures
Direction and supervision
Use of staff agencies
Internal communications.
- (c) Personnel
Training programmes
Assignment and use
Specialized technicians and their use
Personnel relations
Machinery
Incentives and morale
Pay systems

VI. Tools for Improved Management.

- (a) Effective organizational structure and relationships
Centralization and decentralization
- (b) Executive development programmes.
- (c) Adequate managerial powers.
- (d) Modern supervisory procedures.
- (e) Proper utilization of staff assistance and committees.
- (f) Progressive personnel administration.
- (g) Scientific techniques—operations research.
- (h) Adequate use of modern accounting systems and operational statistics.

VII. (a) Review of items not adequately covered in previous sessions.

- (b) Work programme recommendations to United Nations units.

VIII. Adoption of Report.

APPENDIX III

LIST OF DOCUMENTS ISSUED

OPERATIONAL PAPERS

1. List of documents.
2. Aide-Memoire.
3. Agenda.
4. List of personnel.
5. A Bibliography of Public Enterprise Management and Industry in Developing Countries, 1954-1959. By United Nations Division for Public Administration.
6. A Bibliography of Public Enterprise Management: Supplement. By ECAFE Industry and Trade Division.
7. Management of Public Industrial Enterprises : Reference List of International Labour Office Publications. Submitted by Mr. Frank Jones.

DISCUSSION PAPERS

11. Basic Discussion Paper : Management of Public Industries. By A.H. Hanson.
12. Measurement of Management. By Indian Institute of Public Administration.
13. Personnel Management. By S.S. Jaggia.
14. Price Policy. By S.T. Raja.
15. Incentive Wage Systems. By S. Ratnam.

INFORMATION PAPERS—PUBLIC INDUSTRY WITHIN THE ECAFE REGION

(a) Commissioned by the United Nations :

21. Some aspects of the Management of Public Industrial Enterprises in the ECAFE Region. By. M. Ayub.
22. Development of Public Industrial Enterprises in Burma. By U Khin Maung Lwin.
23. Some Problems of Organization and Management of Public Industrial Enterprises : A Case-Study on Ceylon. By the ECAFE secretariat.
24. Management of Public Industrial and Mining Enterprises in the Republic of China. By Ronald H.C. Ho.
25. Structural and Operational Aspects of Public (Especially Industrial) Enterprises in Indonesia. By Mohammad Sadli.
26. Industrial Enterprises in the Public Sector in India. By the Indian Institute of Public Administration.
27. Management of Public Industrial Enterprises in Japan. By H. Nakajima and K. Yamamura.
28. Public Industrial Enterprises in Pakistan. By M. Ayub.
29. The Management of Public Industrial Enterprises in the Philippines. By German T. Danque.

(b) Submitted by participants or member governments:

31. Management of Public Industrial Enterprises in the Philippines. By B.P. Abrera. (Submitted by Government of the Philippines)
32. State Industrial Enterprises in India. (Submitted by Government of India).
33. Management of Public Industrial Enterprises in Thailand. By Charoon Oonjitt.
34. Goals for Management of Public Industrial Enterprises in Taiwan. By J.C. Huang.

35. Management of Public Industrial Enterprises in the Republic of Korea. By Kyumin Kim.
36. Public Industrial Enterprises in the Federation of Malaya. (Submitted by the Government of the Federation of Malaya).
37. Management of Public Industrial Enterprises in Iran. By Shahroukh Firouz.

(c) Additional Papers :

46. Administrative Problems of State Enterprises in India—Report of a Seminar, December 1957. By Indian Institute of Public Administration.
47. The Public Sector in India. By P.S. Lokanathan.
48. The Role of Private Sector in Indian Economy. By H.M. Patel.
49. The Management of Public Enterprises. By Iqbal Narain.

INFORMATION PAPERS—PUBLIC INDUSTRY OUTSIDE THE ECAFE REGION

61. Some Management Problems of Public Industrial Enterprises in Scandinavia. By Sune Carlson.
62. Management of Public Enterprises in the United Kingdom. By P. Chantler.
63. Some Experience in the Management of Yugoslav Industrial Enterprises. By N. Balog.
64. Basic Principles and Tasks in the Management of Industrial Production in the USSR. By S.S. Novojilov.
65. Planned State Industry in the USSR. By D.I. Alehin.
66. Management of State Industrial Enterprises. By K.U. Stroganov.
67. Participation of Workers and Office Employees in the Management of State Enterprises. (Submitted by the USSR participants).
68. Some Data on Public Enterprises in Israel. By J.F. Cahen.

INFORMATION PAPERS—GENERAL AND MISCELLANEOUS

81. Report of the Seminar on Organization and Administration of Public Enterprises in the Industrial Field, Rangoon, 1954.
82. Some Problems in the Organization and Administration of Public Enterprises in the Industrial Field. Documents from Seminar on the Organization and Administration of Public Enterprises in the Industrial Field, Rangoon, 1954. By the United Nations Technical Assistance Administration.